



The Four
Mandatory Buckets
of Personal Finance for
Entrepreneurs

October **2018**



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The Four Mandatory Buckets

Entrepreneurship is the act of creating a business or businesses while building and scaling it to generate a profit. ... ***The more modern entrepreneurship definition is also about transforming the world by solving big problems.***

As an Entrepreneur you tend to focus on reinvesting as a form of wealth creation and that is fine. However I have already written about the financial necessity of saving a portion of any income payment that you receive. This means that a percentage of every single source of income is set aside, marked, or tracked as money that you cannot spend. This task isn't optional if you want to have some basic financial stability or start growing some serious wealth.

Saving is the first step and it is the easiest, simplest, but the most emotionally difficult step. I know that starting to save money is emotionally painful because spending money is easy and pleasurable, while saving money feels difficult and challenging. But like any behavior, it becomes easier and natural the more you do it.

As a review, the billionaire John Templeton started out working during the Great Depression but he saved 50% of his income. This guy was serious! OK, you may have a lot of fixed expenses that you just can't cancel immediately, but at least enroll in financial nursery school by saving 1% from all the income that you receive. Or start with only \$3 a month and then ratchet up your savings rate continually until you are at least over 10%; or if you are ambitious get it over 30%. (If you are trying to find the loophole, this savings is your after-tax income that you can spend – don't count your 401K or other Pension Plan or any other qualified money that you don't have full/immediate access to spending).

The remainder of this article is about what to do with that savings. Economics is the study of allocating scarce resources. Personal economics are similar, but I think that it is better described as: **The allocation of your income that you can't spend.** If you don't spend this money, and maybe have it setting aside in savings account, what do you do with it? Do you pay down on a credit card, save it for a car, donate it to a worthy cause, or purchase a bank certificate of deposit? How do you go about deciding?

Well, I have given this some thought and have reached a few conclusions. It is my view that your monthly savings needs to be divided among four (4) mandatory categories. By this, I mean that among the zillions of things you can do with savings, it is my view that four of them are absolutely mandatory. For example, if you earn a paycheck (and after all of the taxing authorities take their share) of \$100,000 that you can deposit into your checking account and you've chosen a personal savings percentage rate of 8%, then you move \$8,000 ($\$100,000 \times .08$) into a separate savings account. Now, you will take this \$8,000 and divide it up into at least the four mandatory categories I am going to discuss, along with any other categories that you value. In this way you'll have the whole \$8,000 assigned to specific financial duties to meet your financial goals.



We Understand

Having a thorough understanding of the client's business, current situation, needs, and expectations such that there should be no surprises.



We Communicate

Communication before, during, and after an engagement—open and consistent communication at the right time to the right people.



We Collaborate

Collaborating across Crowe Horwath to bring together the right experts to meet the client's needs.



We Deliver

Delivering what we promise and addressing issues that arise—on time, on budget and with the highest quality.

Here are the four categories in priority order

1 The Vault

This is your wealth account. Money gets deposited into this account and it never leaves, like a one-way valve. The Vault is invested and the principal is never spent. It will grow into the largest part of your net worth, generating nearly all of your investment income. If you don't start creating wealth penny-by-penny, you'll never have any.

2 Soft Savings

A delayed spending account. This money is marked for things that you want to buy, but can't afford to purchase with normal pocket money. For example, a house, car, boat, vacation, college fund for kids, planned medical care, clothing, jewelry, etc. But this also includes maintenance to your home, like a roof, new appliances, new siding, paint, landscaping, remodeling, etc.

3 Paydown Debt Balances

Making extra principal payments on your credit cards, car loans, and your mortgage. By chipping away at these expenses you will eventually eliminate them all, and then have more money available for other categories. Personal debt is the opposite of financial freedom and dramatically makes it more difficult to reach your financial goals. If you doubt this, look at the interest charges you pay each month and imagine if that money had been invested instead.

4 Financial Education

Books, magazines, newsletters, seminars, software, investment memberships. Also, hiring professional financial advisors, tax accountants, estate attorneys, etc. (Avoid free advice a buddy, your cousin, or a friend's neighbor – buy the best, most expensive professional advice you can afford).

As I mentioned before, you can put your savings into places that are only limited by your creativity. But it is my view that these four areas are so important that they need to be continually fed money in a systematic manner.

If you are missing the first account, The Vault, you'll never have the money to start investing so you'll never receive any investment income. This is pretty much the goal of all personal finance, to help you generate the most investment income. That is why this is the most important of the four categories, to get your money earning money so that you don't have to. (I do not consider any retirement accounts or qualified accounts to be Vault money. This is because you do not have direct control to invest the money or receive any investment income until the government decides that you can).

If you are missing the second account, Soft Savings, you either can't buy what you want, or you have to increase your personal debt. This is moving in the opposite direction of financial freedom – you are reducing the amount of money that you can spend each month by the amount of the debt payment, and you are reducing your net worth by the principal and interest that you'll be charged. Another symptom of a lack of Soft Savings is disrepair to your car, home, and health because you don't have the money for upkeep. Everything physical needs to be maintained, from your teeth to your vacuum, and it costs money to do so. This depreciates the financial assets that you own, and puts at risk the most important quality of life – your health.

If you are missing the third account, Paydown Debt Balances, you are simply going to be the patsy in the financial game of life. People that are building their wealth collect lots of little interest payments from the people that are destroying their wealth by making lots of little interest payments – money is transferred every month from one group of people to the other. Which group do you want to be in? Well, your Vault can automatically put you into the group of wealth-builders and your Paydown Debt account starts to extract you from the group of wealth-destroyers. The Paydown Debt account puts you on track to permanently extinguish all of your personal debt. The sooner a personal debt is paid off, the more rapidly you can take all of this money and put it into the other categories.

The image is a promotional graphic for Crowe. It features a dark, high-contrast photograph of a mountain climber ascending a steep, snow-covered slope. The climber is wearing a red jacket and a backpack, and is using a climbing rope. The background shows a dramatic sky with a sunset or sunrise, casting a warm glow over the mountain peaks. In the top left corner, the Crowe logo (a stylized yellow triangle) and the word "Crowe" are displayed. The main text, "Smart decisions. Lasting value.", is written in large, white, sans-serif font across the center. At the bottom, the text "Audit / Tax / Advisory" is written in a smaller, white, sans-serif font.

Crowe

**Smart decisions.
Lasting value.**

Audit / Tax / Advisory

If you are missing the fourth account, Financial Education, you won't know how to captain your Vault, and you may run it straight into the rocks. Only you will manage your money in a manner that will be to your maximum benefit. So it is best if you pay to learn how to handle money and learn where to put it. But not everyone has an interest in these subjects, and that is fine. For them, instead of personally managing your money, you are going to personally manage your financial advisors. You'll be spending money and time to hire and manage the advisors to attend to financial details.

By allocating your savings into these four categories you are addressing the four most important elements of financial management. You'll be making certain that: Your investment income will always increase by adding to your Vault; you'll have money available for extra expenses with your Soft Savings; your net worth will always be increasing with a Paydown Debt account; and you'll intelligently learn how to lower your investment risk, raise your investment returns, and lower your tax liability with your Financial Education account. The only source of money to build these critical financial functions to increase your income, net worth, and stability is your savings – you simply have to do it.

I recommend you fund these accounts simultaneously – do not focus only on debt or only on education because I have seen how it is financially detrimental to do so. For example, let's say that you really want to paydown your debt so you don't contribute anything to The Vault. I have found that if you don't have any investments, your investing skills will be under developed. You will not know how to invest once your debts have been paid off, you'll have no investment income to manage, you won't be looking for investing opportunities because that is something you can't afford right now, etc. And as a result, it will be harder to get into the investing game later, you'll have more to learn in a shorter amount of time, and may just avoid it altogether and put Vault money into a low paying account.

How much do you allocate among the four categories? Anything more than zero! It is up to you, and your financial situation will fluctuate and be different from others. Just to get some starting percentages, below is my allocation. It is not a recommendation for anyone, it is just what works for some individuals right now.

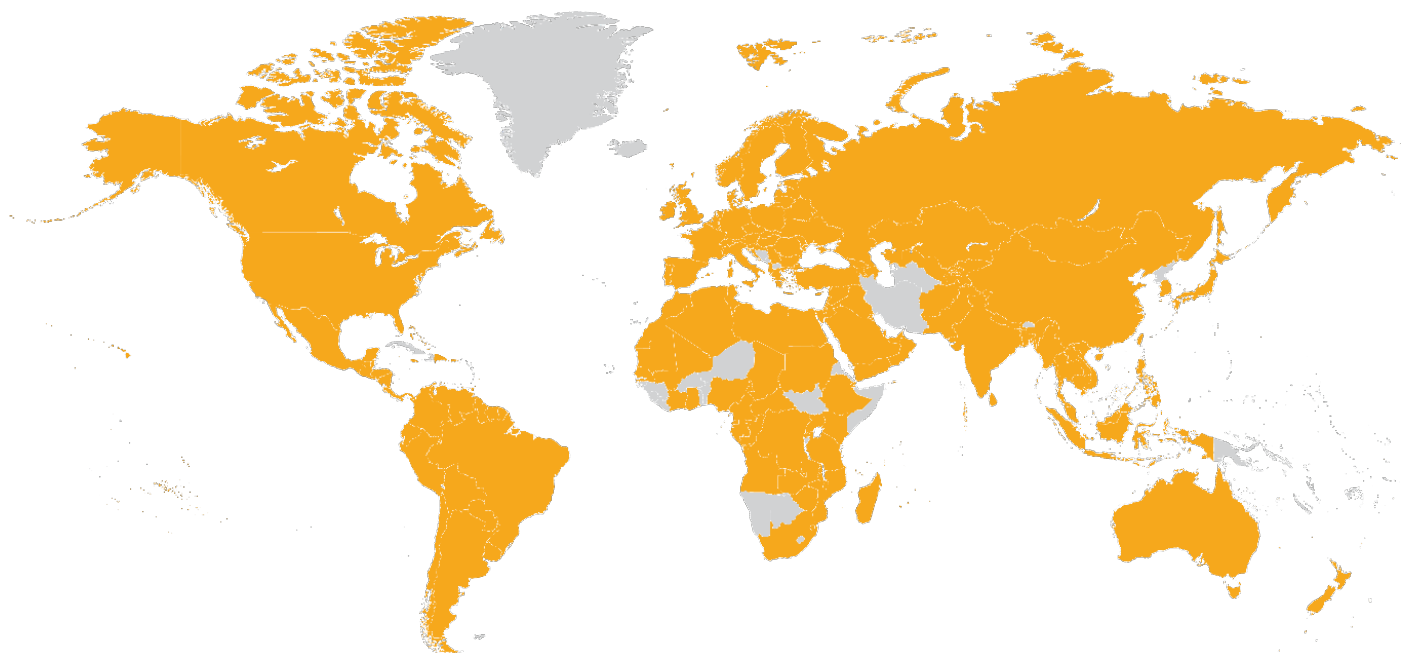
My current savings rate = 10% of all after-tax income.

(This does not include 401K/Pension, medical savings accounts, or other deferred/qualified withholding). This means that 10% of all cash income that hits my checking account each month is set aside into these categories:

- 1 The Vault receives 50% of total savings each month.
- 2 Soft Savings receives 20% of savings each month.
- 3 Paydown Debt receives 20% of savings each month.
- 4 Financial Education receives 5% of savings each month.
- 5 And that leaves 5% for other categories each month.

You may receive continual, ongoing income, in addition to some rare, one-time inflows of money. The percentages detailed above are how I allocate regular income savings. But if there is any one-time inflow of money (garage sale, bonus, extra project), then I take 50% of the proceeds and split it among the four accounts, and the other 50% is just spent. You can create your own money rules for different types of income; you can tell by my allocation percentages that my primary focus is to build up the balance of the Vault.

The amount of money that you can save from every source of income is your key to a brighter financial future. Contrarily, a risky and dimmer financial future awaits those that refuse to systematically save money. So be sure that you take the steps necessary to set savings aside and then simultaneously divide it among the four mandatory accounts by consistently allocating money to them. You don't have a financial foundation without these four accounts, but with them, you can build as high as your ambition takes you.



About us

Crowe Global

Ranked the eighth largest accounting network in the world, Crowe Global has over 180 independent accounting and advisory firms in more than 130 countries.

For almost 100 years, Crowe has been making smart decisions for multinational clients working across borders. Our leaders work with governments, regulatory bodies and industry groups to shape the future of the profession worldwide. Their exceptional knowledge of business, local laws and customs provide lasting value to clients undertaking international projects. Crowe provides global reach on a personal scale. Firms are focused on the future and the client experience, working with clients to build something valuable, substantial, and enduring. Close working relationships are at the heart of our effective service delivery.

At Crowe, our professionals share one commitment, to deliver excellence.

Crowe Jamaica

Crowe Jamaica is a professional service firm offering a full range of Audit, Accounting, Advisory and Taxation Services. We are a firm of chartered accountants whose concept of service is to solve problems, exploit opportunities and turn advice into action. Our style is personal and our outlook progressive. We continually strive to create value for our clients.

Established in 2002, we have become one of Jamaica's leading accountancy practices and lead the field in the provision of advice to private clients and business owners.

Crowe Jamaica is one of the largest public accounting, consulting, and advisory firms in Jamaica. Crowe Jamaica uses its deep industry expertise to provide audit services to public and private entities while also helping clients reach their goals with tax, advisory, risk and performance services.

Crowe Jamaica serves clients worldwide as an independent member of Crowe Global. The network consists of more than 180 independent accounting and advisory services firms in more than 130 countries around the world. Our network of Jamaica offices (Kingston, Runaway Bay, Montego Bay and Mandeville) ensures that we can provide a local service backed by the expertise of a major national practice.

Our firm provides outstanding service to our clients because of our dedication to the three underlying principles of Professionalism, Responsiveness and Quality.

Crowe Jamaica is particularly known for our one – stop – shop concept that was, according to our client’s experience, of invaluable significance to those companies that are establishing their business operations in Jamaica. To respond to clients growing demands, we developed deep industry specialization together with innovative technology, which enables our dedicated professionals to create value for our clients with integrity and objectivity. Furthermore, membership in Crowe Global provides us the worldwide capabilities of a highly integrated network to deliver value to multinational clients doing business across borders.

Our professionals are experts who all share a commitment to delivering technical excellence and the highest standards of client service. Relying on both international expertise and the local office strength, Crowe Jamaica approaches its clients in a comprehensive and responsible way.

For information regarding our services contact us: info@crowehorwath.com.jm

